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**International**

**ANNUAL  
REPORT  
1978**

**MTS  
International Services Incorporated**

# MTS International Services Incorporated

*and subsidiary companies*

## HEAD OFFICE

**170 University Avenue, Suite 300  
Toronto, Ontario M5H 3B3**

### DIRECTORS

D. J. RICCI—Chairman  
R. E. DALE, Q.C.  
D. R. PATTERSON  
M. PETERS

### OFFICERS

D. J. RICCI —Chairman of the Board  
D. R. PATTERSON—President  
R. E. DALE, Q.C. —Secretary

### AUDITORS

MacGillivray & Co.  
390 Bay Street, Suite 2400  
Toronto, Ontario  
M5H 2R6

### BANKER

Bank of Montreal  
700 University Avenue  
Toronto, Ontario  
M5G 1Z5

### COUNSEL

Woolley, Dale and Dingwall  
Toronto-Dominion Centre  
Box 65, Suite 3205  
Toronto, Ontario  
M5K 1E7

### TRANSFER AGENT

Crown Trust Company  
302 Bay Street  
Toronto, Ontario  
M5H 2P4

## MTS International Services Incorporated

### *and subsidiary companies*

## **REPORT TO SHAREHOLDERS**

While sales for 1978 increased 21.3% operating costs increased only 17.7% resulting in Earnings Before Extraordinary Items of \$152,351 and Net Earnings of \$289,707 which compares most favourably to the Loss of \$9,817 for 1977. The most striking comparison to 1977 is the Net Earnings per share of 13.9¢ for 1978 compared to the Loss of .5¢ for 1977. Working Capital increased dramatically by 79.2% to \$688,066 or 33¢ per share.

The success we had during the past year is directly attributable to the dedication of our staff and I wish to take this opportunity to thank them for their efforts during the year.

**D. J. Ricci**  
**Chairman**

## COMPARATIVE HIGHLIGHTS

# MTS International Services Incorporated

*and subsidiary companies*

## CONSOLIDATED BALANCE SHEET

as at July 31, 1978

### ASSETS

	<u>1978</u>	<u>1977</u>
<b>CURRENT</b>		
Cash	\$ 200,137	\$ 64,037
Accounts receivable	1,165,121	1,126,257
Note receivable	—	25,000
Prepaid expenses	<u>28,287</u>	<u>18,145</u>
	<b>\$1,393,545</b>	\$1,233,439
<b>FIXED</b>		
Equipment and leasehold improvements, at cost, less accumulated depreciation and amortization of \$63,875 (1977—\$60,242)	14,484	16,850
<b>GOODWILL</b> (Note 1d)	<u>144,000</u>	<u>156,000</u>
	<b><u>\$1,552,029</u></b>	<b><u>\$1,406,289</u></b>

ON BEHALF OF THE BOARD

“D. J. Ricci”

Director

“R. E. Dale”

Director

**LIABILITIES**

	<u>1978</u>	<u>1977</u>
<b>CURRENT</b>		
Bank indebtedness	\$ —	\$ 275,334
Accounts payable and accrued liabilities	<b>671,114</b>	507,672
Income taxes	<b>34,365</b>	66,440
	<b><u>\$ 705,479</u></b>	<b><u>\$ 849,446</u></b>

**SHAREHOLDERS' EQUITY****CAPITAL STOCK**

Authorized  
3,000,000 common shares, without par value

Issued and fully paid  
2,083,384 common shares                    \$ **685,377**                    \$ 685,377

**RETAINED EARNINGS (DEFICIT)**

<b>161,173</b>	<b>(128,534)</b>
<b><u>\$ 846,550</u></b>	<b><u>\$ 556,843</u></b>
<b><u>\$1,552,029</u></b>	<b><u>\$1,406,289</u></b>

# MTS International Services Incorporated

*and subsidiary companies*

## CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS for the year ended — July 31, 1978

	<u>1978</u>	<u>1977</u>
<b>REVENUE FROM SERVICES</b>	✓ \$7,027,957	\$5,791,519
<b>OPERATING COSTS</b>	<u>6,770,606</u>	<u>5,752,336</u>
Operating income	\$ 257,351	\$ 39,183
Provision for income taxes	<u>105,000</u>	<u>49,000</u>
<b>EARNINGS (LOSS) BEFORE EXTRAORDINARY ITEMS</b>	✓ \$ 152,351	(\$ 9,817)
Extraordinary items (Note 2)	<u>137,356</u>	<u>—</u>
<b>NET EARNINGS (LOSS) (Note 3)</b>	✓ \$ 289,707	(\$ 9,817)
<b>RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR</b>		
As originally reported	(\$ 128,534)	(\$ 192,717)
Prior period adjustment	<u>—</u>	<u>74,000</u>
As restated	<u>(\$ 128,534)</u>	<u>(\$ 118,717)</u>
<b>RETAINED EARNINGS (DEFICIT), END OF YEAR</b>	<u>\$ 161,173</u>	<u>(\$ 128,534)</u>
<b>EARNINGS PER SHARE</b>		
Average number of shares outstanding	2,083,384	2,083,384
Earnings (loss) before extraordinary items	✓ 7.3¢	(0.5¢)
Net earnings (loss)	13.9¢	(0.5¢)

# MTS International Services Incorporated

*and subsidiary companies*

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION for the year ended — July 31, 1978

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	<u>1978</u>	<u>1977</u>
<b>SOURCE OF FUNDS</b>		
Operations		
Earnings (loss) before extraordinary items	\$152,351	(\$ 9,817)
Expenses not requiring an outlay of funds —		
Amortization of goodwill	12,000	12,000
Depreciation	3,912	4,888
	<u>\$168,263</u>	<u>\$ 7,071</u>
Extraordinary items (Note 2)	137,356	—
Proceeds from note receivable	—	25,000
	<u>\$305,619</u>	<u>\$ 32,071</u>
<b>APPLICATION OF FUNDS</b>		
Purchase of fixed assets	<u>1,546</u>	<u>503</u>
<b>INCREASE IN WORKING CAPITAL</b>	<b>\$304,073</b>	<b>\$ 31,568</b>
Working capital, beginning of year	<u>383,993</u>	<u>352,425</u>
<b>WORKING CAPITAL, END OF YEAR</b>	<b><u>\$688,066</u></b>	<b><u>\$383,993</u></b>

# MTS International Services Incorporated

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at July 31, 1978

### NOTE 1: SUMMARY OF ACCOUNTING POLICIES

- (a) The consolidated financial statements include the accounts of MTS International Services Incorporated and all subsidiary companies.
- (b) Foreign currencies have been translated to Canadian Funds on the basis that balance sheet historic items have been translated at historic rates. All other items have been translated at year end rates. Unrealized exchange gains of \$20,034 are reflected in the Consolidated Statement of Earnings (1977 — \$22,963).
- (c) No provision has been recorded for withholding taxes which amount to approximately \$44,000 on undistributed earnings of foreign subsidiaries.
- (d) The Company follows the policy of amortizing goodwill over 15 years, at the rate of \$12,000 per annum, and the accumulated amortization to date is \$36,000 (1977 — \$24,000).

### NOTE 2: EXTRAORDINARY ITEMS

	<u>1978</u>	<u>1977</u>
Reduction of income taxes arising from carry forward of prior years' losses	\$ 89,356	\$ —
Adjustment to reflect the final disposition of liabilities of a former foreign subsidiary	48,000	—
	<u>\$137,356</u>	<u>\$ —</u>

### NOTE 3: NET EARNINGS

In previous years the company had set up an accrual in regards to potential liabilities arising from negotiated contracts. Subsequent events have indicated that this accrual is not now required, and in accordance with the recommendations of the CICA handbook, this item has been brought into income in the current year. This has had the effect of increasing earnings before extraordinary items by \$27,707 (1.3¢ per share), extraordinary items by \$27,000 (1.3¢ per share) and net earnings by \$54,707 (2.6¢ per share).

# MTS International Services Incorporated

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## **NOTE 4: CONTINGENT LIABILITIES**

The Company may have an undetermined potential liability estimated not to exceed \$89,000 arising from previously negotiated contracts (see Note 3 above). In the opinion of management no direct liability exists. In addition certain parent company charges to a foreign subsidiary in the years 1973 to 1977 may not be allowed for income tax purposes. The potential tax liability in this regard has been estimated not to exceed \$76,500.

## **NOTE 5: INCOME TAXES**

In certain subsidiary companies losses of \$240,000, expiring in 1981 and 1982, remain deductible in determining income taxes payable in future years. The tax benefit which is dependent on the future profitability of these companies will be reflected in earnings when realized.

## **NOTE 6: STATUTORY INFORMATION**

The aggregate direct remuneration of the directors and senior officers of the Company as defined by The Business Corporations Act (Ontario) is as follows:

	<u>1978</u>	<u>1977</u>
Directors' fees	\$ 3,300	\$ 3,500
Senior officers' remuneration	<u>194,404</u>	<u>176,800</u>
	<u>\$197,704</u>	<u>\$180,300</u>

# MTS International Services Incorporated

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## AUDITORS' REPORT

To the Shareholders of

MTS International Services Incorporated  
and subsidiary companies:

We have examined the consolidated balance sheet of MTS International Services Incorporated as at July 31, 1978 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination of the financial statements of MTS International Services Incorporated and those subsidiaries of which we are the auditors was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at July 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

MacGILLIVRAY & CO.  
Chartered Accountants

Toronto, Ontario.  
December 28, 1978





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**MTS International Services Incorporated**